

Iran Oil Sanctions Exceptions Ended

April 24, 2019

Overview

On April 22, 2019, the [State Department announced](#) that exceptions granted to eight countries enabling them to buy Iranian oil without U.S. penalty would not be renewed when they expire on May 2, 2019. The announcement stated that the global oil market is sufficiently well supplied to permit the move, which “aims to bring Iran’s oil [exports to zero](#), denying the regime its principal source of revenue.” The decision has raised speculation over how effective it will be in reducing Iran’s oil exports, how Iran will react, and potential effects on the global oil market—issues that might potentially be considered in evaluating legislation, including Iran sanctions legislation, in the 116th Congress.

Legislative Basis

The State Department announcement represents a decision under Section 1245 of the [FY2012 National Defense Authorization Act](#) (NDAA; P.L. 112-81). That law requires the President to prevent a foreign bank from opening or maintaining an account in the United States if that bank is determined to have conducted a “significant financial transaction” with Iran’s Central Bank or with any sanctioned Iranian bank. Iran’s Central Bank maintains or controls accounts abroad for the primary purpose of receiving payments for Iranian oil and other goods that are considered a national resource.

The FY2012 NDAA provision provides an incentive for Iran’s oil buyers to cut purchases of Iranian oil by providing for an exception for the banks of any country determined to have “significantly reduced” its purchases of oil from Iran. The exception, called a “Significant Reduction Exception” (SRE), allows the banks of countries granted the SRE to conduct all transactions with the Central Bank (not just for oil) or with any sanctioned Iranian bank. The SRE is reviewed every 180 days, and, to maintain the SRE, countries are required to reduce their oil buys from Iran by approximately 20% relative to the previous period.

Implementation

The Obama and Trump Administrations have implemented the FY2012 NDAA with an eye toward balancing the stability of the global oil market with the intended effects on Iran’s economy and behavior.

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During 2012, the Obama Administration granted SREs to 20 countries, and the incentive succeeded in reducing Iran's oil exports from about 2.5 million barrels per day (mbd) to about 1.1 mbd by the end of 2013. Of that amount, almost all was exported to [six major customers](#): the European Union (mainly Greece, Italy, and Spain), China, India, Turkey, Japan, and South Korea, with smaller amounts exported to other buyers mainly in East Asia.

In January 2016, in concert with the implementation of the 2015 multilateral nuclear deal with Iran, President Obama waived the NDAA provision, thus suspending the requirement of Iran's oil customers to reduce their purchases to avoid sanctions. As a result, most buyers resumed purchasing oil from Iran at levels prior to the enactment of the law, and Iran's exports quickly returned to the 2.5 mbd level.

On November 5, 2018 the FY2012 NDAA provision went back into full effect as a consequence of President Trump's [decision in May 2018](#) to withdraw the United States from the Iran nuclear accord. However, Administration officials said at that time that they would evaluate new requests for SREs based on country-specific circumstances and the need for global oil market stability. On [November 5, 2018](#), eight countries received SREs: China, India, Italy, Greece, Japan, South Korea, Taiwan, and Turkey. Yet the requirement that countries continue to reduce purchases from Iran caused [Iran's oil sales to fall](#) to about 1.1 mbd as of the end of March 2019. Of the eight, Taiwan, Greece, and Italy had ceased importing Iranian oil in late 2018.

With the SREs set to expire on May 2, 2019, some of Iran's oil customers [indicated an expectation](#) of receiving an SRE for another 180-day period. However, the Administration decided to apply additional pressure on Iran's economy, perhaps assisted by [commitments](#) from Saudi Arabia, the United Arab Emirates, and other suppliers to ensure that "global oil markets remain adequately supplied."

Responses of Key Iran Oil Customers

Whether the ending of the SREs achieves the stated goal of reducing Iran's oil exports to zero depends on the behavior of Iran's key customers. Some buyers might attempt to bypass U.S. penalties by forging an arrangement that trades Iranian oil for goods of equivalent value. Others might process payments through banks that do not operate in the United States. Some countries might try to link the imposition of actual penalties to their broader relationship with the United States. Officials from China, the largest buyer of Iranian oil, [have expressed defiance](#) of the U.S. move, indicating they will continue to buy oil from Iran. [Turkey's leaders](#) have strongly criticized the U.S. decision and indicated Turkey might continue to buy Iranian oil. [Indian officials said](#) they would arrange alternate supplies. Japan and South Korea historically have strictly complied with U.S. sanctions and may find alternate supplies of oil and condensate—an ultra-light oil feedstock on which South Korea's petrochemical industry depends.

Iran's Reaction and Possible Responses

Coming only two weeks after the United States designated the Islamic Revolutionary Guard Corps (IRGC) as a foreign terrorist organization (FTO), the SRE decision has further aggravated tensions with Iran. Immediately after the SRE announcement, the head of the IRGC Navy, Rear Admiral Alireza Tangsiri, reiterated a previous threat to close the strategic Strait of Hormuz, through which a third of the world's seaborne oil passes, if the end of the SRE allowances causes Iran to be "[banned from using \[the Strait\]](#)." This latest Administration move might strengthen Iran's hardliners in the internal Iranian debate over whether to abrogate the 2015 multilateral nuclear deal on the grounds that it no longer provides the promised economic benefits. Iran's reaction to the Administration decision might affect congressional consideration of Iran sanctions legislation introduced in the 116th Congress.

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